Could Enbridge (TSX:ENB) Accelerate Its Dividend Growth Rate?

Description

Enbridge (TSX:ENB)(NYSE:ENB) is a name that needs no introduction, especially in the investing world. It is one of the largest stocks trading on the Toronto Stock Exchange and a dividend aristocrat. The energy infrastructure giant has been paying regular dividends since 1953 without any cuts.

The company has been growing dividends every year since 1996. It grew dividends even before that but growth stagnated during crises, like the 1974 stagflation and 1991 recession. All these recessions made Enbridge stronger. Thusly, it continued growing dividends in the 2007 financial crisis, the 2014 oil crisis, and the 2020 pandemic.

Enbridge's dividend growth trend

Enbridge slowed its dividend growth to 3% in 2020 and 2021 from 9.8% in 2019. The slow growth was a result of the pandemic crisis. Its historical data shows that the company slowed its dividend growth to 7.3% during the 2008 Financial crisis but boosted the growth rate to 12.1% during the economic recovery.

This got me thinking, can Enbridge boost its dividend growth rate after two years of tepid growth? The answer lies in Enbridge's cash flow, operating profit, and balance sheet.

Enbridge to benefit from US LNG exports

The year 2022 saw a rebound in the oil and gas sector fuelled by the return of travel demand, OPEC's (Organization of the Petroleum Exporting Countries) reluctance to grow supply, and the Russia–Ukraine war. But let's focus in on the war as Western countries ban Russian oil and natural gas.

Russia is the largest natural gas supplier to Europe, and a sudden decrease from its key supplier has made Europe desperate for oil and natural gas. It is seeking alternatives to Russian gas, and America has come to its rescue. This year, the United States became the world's largest LNG exporter.

This shift in the LNG supply chain has encouraged Europe to sign long-term LNG supply contracts to secure supply. Enbridge is a key beneficiary of this increase in LNG exports as its transmission infrastructure facilitates the export. The LNG export opportunity is huge, and that could accelerate project completion. The company is building new LNG projects — Texas LNG, Wooffibre, and the Rio Grande. Most of its projects are expected to begin service between 2023 and 2025.

Can Enbridge accelerate its dividend growth rate?

Enbridge earns income from the toll money it gets for transmitting oil and gas through its pipelines. The pandemic reduced oil volume, which impacted Enbridge's cash flows. But the rebound in oil and gas demand has put all pipelines running at full capacity, which increased its adjusted EBITDA and distributable cash flow (DCF). DCF is calculated after removing the capital expenditure used for building new projects.

Enbridge expects to grow its DCF/share by 8% to $5.35. The company determines its dividend amount for the coming year (2023) on the previous year's DCF (2022). The company increased its 2022 dividend by 3% to $3.44 after its 2021 DCF increased 6% to $4.96. It paid 69% of its 2021 DCF as dividends in 2022. If Enbridge pays 69% of its 2022 DCF as dividends in 2023, it could grow its 2023 dividend by 7.3% to $3.69 in December.

Enbridge expects to increase its DCF/share at a compounded annual growth rate (CAGR) of 5-7% between 2021 and 2024. This growth rate could accelerate as under-construction projects come online between 2023 and 2025.

Final thoughts

The recent developments in the LNG space have opened new opportunities for North American LNG exports. Enbridge expects N.A. LNG exports to grow 190% by 2040, and it is looking to tap a 30% share of this export market. The next 10 years could see a surge in capital expenditure as Enbridge expands its LNG infrastructure. The pipeline company could return to double-digit dividend growth in the next few years.

The LNG opportunity has increased Enbridge's average stock price to $55. This pipeline major is a stock to buy and hold for the next two decades. It will provide you with a 6% dividend yield. In the short term, except the stock price to move 10% up or down in tandem with oil and gas prices. Do not panihover this short-term price momentum and hold onto the dividend aristocrat to enjoy good returns.

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